

**REPORT OF THE AUDIT OF THE
ROWAN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**

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To the People of Kentucky

Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Jim Nickell, Rowan County Judge/Executive
Honorable Clyde A. Thomas, Former Rowan County Judge/Executive
Members of the Rowan County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Rowan County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Rowan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Rowan County, Kentucky, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements do not include the financial data of the Rowan County Extension Board, an entity that meets the criteria to be reported as a discretely presented component unit of Rowan County, Kentucky, in accordance with accounting principles generally accepted in the United States of America.

To the People of Kentucky
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In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in all material respects, the financial position of the discretely presented component unit of Rowan County, Kentucky, as of June 30, 2006, and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in note 1.


In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rowan County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The Rowan County Fiscal Court has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2007 on our consideration of Rowan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rowan County, Kentucky's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basis financial statements of Rowan County, Kentucky. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,


Morgan-Franklin, LLC

January 29, 2007

ROWAN COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Clyde A. Thomas	County Judge/Executive
Anna Pecco	Magistrate
Jerry Flannery	Magistrate
Troy Perkins	Magistrate
Nick Caudill	Magistrate

Other Elected Officials:

William W. Roberts	County Attorney
Tim Bryant	Jailer
Jean W. Bailey	County Clerk
Jim Barker	Circuit Court Clerk
Jack Carter	Sheriff
C.J. Baker	Property Valuation Administrator
John P. Northcutt	Coroner

Appointed Personnel:

Kerry M. Jessee	County Treasurer
Charles Stansbury	Occupational Tax Collector
Mary Ann Stevens	Finance Officer

**ROWAN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2006

ROWAN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,497,553	\$ 16,630	\$ 1,514,183
Assets Held for Sale	260,000		260,000
Total Current Assets	1,757,553	16,630	1,774,183
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	1,339,278		1,339,278
Land and Land Improvements	4,328,917		4,328,917
Buildings	3,012,976		3,012,976
Other Equipment	704,756		704,756
Vehicles and Equipment	541,073	21,140	562,213
Infrastructure Assets - Net of Depreciation	889,244		889,244
Total Noncurrent Assets	10,816,244	21,140	10,837,384
Total Assets	12,573,797	37,770	12,611,567
LIABILITIES			
Current Liabilities:			
Bonds Payable	320,000		320,000
Financing Obligations Payable	515,000		515,000
Total Current Liabilities	835,000		835,000
Noncurrent Liabilities:			
Bonds Payable	1,010,000		1,010,000
Financing Obligations Payable	1,739,920		1,739,920
Total Noncurrent Liabilities	2,749,920		2,749,920
Total Liabilities	3,584,920		3,584,920
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	7,491,324	21,140	7,512,464
Restricted For:			
Capital Projects	736,372		736,372
Unrestricted	761,181	16,630	777,811
Total Net Assets	\$ 8,988,877	\$ 37,770	\$ 9,026,647

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June, 30 2006

ROWAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,009,212	\$ 49,714	\$ 1,705,882	\$ 367,777
Protection to Persons and Property	2,514,045	1,643,441	108,259	
General Health and Sanitation	373,565			
Social Services	60,819		16,887	
Recreation and Culture	104,500			
Roads	1,452,049		715,567	
Debt Service	195,092			
Capital Projects	85,871			
Total Governmental Activities	7,795,153	1,693,155	2,546,595	367,777
Business-type Activities:				
Jail Canteen	100,455	110,787		
Total Business-type Activities	100,455	110,787		
Total Primary Government	\$ 7,895,608	\$ 1,803,942	\$ 2,546,595	\$ 367,777

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Bank Deposit Franchise Taxes
Corporation Franchise Taxes
Profit and Occupational Taxes
Deed Transfer Taxes
In Lieu Taxes
Other Taxes
Excess Fees
License and Permits
Unrestricted Investment Earnings
Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (885,839)	\$	\$ (885,839)
(762,345)		(762,345)
(373,565)		(373,565)
(43,932)		(43,932)
(104,500)		(104,500)
(736,482)		(736,482)
(195,092)		(195,092)
(85,871)		(85,871)
(3,187,626)		(3,187,626)
	10,332	10,332
	10,332	10,332
(3,187,626)	10,332	(3,177,294)
397,585		397,585
35,326		35,326
84,143		84,143
35,566		35,566
62,475		62,475
2,687,383		2,687,383
43,949		43,949
157,377		157,377
32,760		32,760
71,014		71,014
211,448		211,448
21,886		21,886
465,314		465,314
4,306,226		4,306,226
1,118,600	10,332	1,128,932
7,870,277	27,438	7,897,715
\$ 8,988,877	\$ 37,770	\$ 9,026,647

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

ROWAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Jail Fund	Disaster And Emergency Services Fund	Ambulance Fund
ASSETS					
Cash and Cash Equivalents	\$ 418,710	\$ 7,258	\$ 6,324	\$ 135,329	\$ 3,095
Total Assets	<u>\$ 418,710</u>	<u>\$ 7,258</u>	<u>\$ 6,324</u>	<u>\$ 135,329</u>	<u>\$ 3,095</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 136,152	\$ 15,750	\$ 12,914	\$ 6,474	\$ 9,179
Unreserved:					
General Fund	282,558				
Special Revenue Funds		(8,492)	(6,590)	128,855	(6,084)
Debt Service Fund					
Capital Project Fund					
Total Fund Balances	<u>\$ 418,710</u>	<u>\$ 7,258</u>	<u>\$ 6,324</u>	<u>\$ 135,329</u>	<u>\$ 3,095</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,497,553
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital Assets Used in Governmental Activities of \$12,952,927, Net of Accumulated Depreciation of \$2,136,683 are not Financial Resources and, Therefore, are not Reported in the Funds.	10,816,244
Assets Held For Sale	260,000
Long-Term Debt is not Due and Payable in the Current Period and, Therefore is not Reported in the Funds.	
Bond Obligations	(1,330,000)
Financing Obligations	<u>(2,254,920)</u>
Net Assets Of Governmental Activities	<u>\$ 8,988,877</u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Old Courthouse Restoration Fund	County of Rowan Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 693,972	\$ 141,394	\$ 91,471	\$ 1,497,553
\$ 693,972	\$ 141,394	\$ 91,471	\$ 1,497,553
\$ 481,957	\$	\$ 17,518	\$ 679,944
			282,558
		73,953	181,642
	141,394		141,394
212,015			212,015
\$ 693,972	\$ 141,394	\$ 91,471	\$ 1,497,553

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	Jail Fund	Disaster And Emergency Services Fund
REVENUES				
Taxes	\$ 2,706,382	\$ 671,824	\$	\$
In Lieu Tax Payments	93,325	64,052		
Excess Fees	71,014			
Licenses and Permits	211,448			
Intergovernmental	1,123,680	1,298,599	717,663	16,059
Charges for Services			36,148	
Miscellaneous	122,051	313,089	30,109	862
Interest	8,468	3,248	309	1,823
Total Revenues	<u>4,336,368</u>	<u>2,350,812</u>	<u>784,229</u>	<u>18,744</u>
EXPENDITURES				
General Government	1,252,315			
Protection to Persons and Property	408,476		998,838	67,274
General Health and Sanitation	352,943			
Social Services	60,699	120		
Recreation and Culture	104,500			
Roads		2,160,709		
Debt Service	293,603	273,044		
Capital Projects	10,000			13,657
Administration	901,277	383,158	226,639	10,761
Total Expenditures	<u>3,383,813</u>	<u>2,817,031</u>	<u>1,225,477</u>	<u>91,692</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>952,555</u>	<u>(466,219)</u>	<u>(441,248)</u>	<u>(72,948)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds		754,920		
Transfers From Other Funds	268,778	247,527	540,044	22,278
Transfers To Other Funds	(913,059)	(562,678)	(125,770)	
Total Other Financing Sources (Uses)	<u>(644,281)</u>	<u>439,769</u>	<u>414,274</u>	<u>22,278</u>
Net Change in Fund Balances	308,274	(26,450)	(26,974)	(50,670)
Fund Balances - Beginning	110,436	33,708	33,298	185,999
Fund Balances - Ending	<u>\$ 418,710</u>	<u>\$ 7,258</u>	<u>\$ 6,324</u>	<u>\$ 135,329</u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Ambulance Fund	Old Courthouse Restoration Fund	County of Rowan Properties Cooperation Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$ 982	\$ 3,379,188
				157,377
				71,014
				211,448
240,157			155,991	3,552,149
997,887				1,034,035
20,546				486,657
576		7,059	404	21,887
<u>1,259,166</u>		<u>7,059</u>	<u>157,377</u>	<u>8,913,755</u>
				1,252,315
1,109,088			66,533	2,650,209
			18,390	371,333
				60,819
				104,500
				2,160,709
41,900		381,545		990,092
	1,199,861		85,464	1,308,982
315,137		215		1,837,187
<u>1,466,125</u>	<u>1,199,861</u>	<u>381,760</u>	<u>170,387</u>	<u>10,736,146</u>
(206,959)	(1,199,861)	(374,701)	(13,010)	(1,822,391)
				754,920
141,300		381,143	38,964	1,640,034
			(38,527)	(1,640,034)
<u>141,300</u>		<u>381,143</u>	<u>437</u>	<u>754,920</u>
(65,659)	(1,199,861)	6,442	(12,573)	(1,067,471)
68,754	1,893,833	134,952	104,044	2,565,024
<u>\$ 3,095</u>	<u>\$ 693,972</u>	<u>\$ 141,394</u>	<u>\$ 91,471</u>	<u>\$ 1,497,553</u>

The accompanying notes are an integral part of the financial statements.

**ROWAN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

ROWAN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (1,067,471)
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	2,197,730
Depreciation Expense	(285,664)

Asset Held For Resale	260,000
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Basis of Disposed Assets	(26,075)
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The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds. These Transactions, However, Have no Effect on Net Assets.

Financing Obligation	(754,920)
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Lease and Bond Principal Payments are Expensed in the Governmental Funds as a use of Current Financial Resources. These Transactions, However, Have No Effect on Net Assets.

Financing Obligations	490,000
Bond Payments	305,000

Change in Net Assets of Governmental Activities	\$ <u>1,118,600</u>
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**ROWAN COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

June 30, 2006

ROWAN COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 16,630
Total Current Assets	<u>16,630</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	
Less Accumulated Depreciation	<u>21,140</u>
Total Noncurrent Assets	<u>21,140</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	21,140
Unrestricted	<u>16,630</u>
Total Net Assets	<u><u>\$ 37,770</u></u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

ROWAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 110,787
Total Operating Revenues	<u>110,787</u>
Operating Expenditures	
Cost of Sales	66,505
Educational and Recreational	12,250
Depreciation	3,600
Miscellaneous	5,464
Total Operating Expenditures	<u>87,819</u>
Operating Income (Loss)	22,968
Nonoperating Revenues (Expenditures)	
Inmate Refunds	<u>(12,636)</u>
Total Nonoperating Revenues (Expenditures)	(12,636)
Change In Net Assets	10,332
Total Net Assets - Beginning	27,438
Total Net Assets - Ending	<u><u>\$ 37,770</u></u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

ROWAN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 110,787
Cost of Sales	(66,505)
Educational and Recreational	(12,250)
Miscellaneous	(5,464)
Net Cash Provided By Operating Activities	<u>26,568</u>
Cash Flows From Capital And Related Financing Activities	
Purchase of Vehicles	(15,500)
Net Cash Provided (Used) By Capital And Related Financing Activities	(15,500)
Cash Flows From Noncapital Financing Activities	
Inmate Refunds on Accounts	(12,636)
Net Cash Provided (Used) By Noncapital Financing Activities	(12,636)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,568)
Cash and Cash Equivalents - July 1	18,198
Cash and Cash Equivalents - June 30	<u>\$ 16,630</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	<u>Jail Canteen Fund</u>
Operating Income	\$ 22,968
Depreciation	3,600
Net Cash Provided By Operating Activities	<u>\$ 26,568</u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Rowan County should include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Auditing Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

The Rowan County Extension Board

Rowan County Extension Board is a legally separate entity established to operate as the Extension Board. The Rowan County Fiscal Court Judge Executive appoints all of the Board's directors. Management should include the Rowan County Extension Board as a discretely presented component unit, but has elected to exclude the Board from presentation in the County's financial statements. However, separate financial statements can be obtained by contacting:

Martha Perkins
Family Consumer Sciences Agent
627 East Main Street
Morehead, KY 40351

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

The County of Rowan Properties Corporation

The fiscal court appoints the voting majority of the County of Rowan Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the County of Rowan Properties Corporation.

C. Rowan County Elected Officials

Kentucky Law provides for election of the below officials from the geographic area constituting Rowan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Rowan County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Property Tax Calendar

Generally, and accept as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale April 30 following the delinquency date.

E. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued).

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities; the difference between the two is being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Disaster and Emergency Services Fund - The purpose of this fund is to account for disaster and emergency services expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, grant funds from state and federal governments, and transfers in from the City of Morehead, Kentucky to help fund the service. The funds are used to maintain and operate emergency disaster services.

Ambulance Fund - The purpose of this fund is to account for ambulance service expenses of the county. The primary sources of revenue for this fund are charges for services, grant funds from state and federal governments, and transfers in from the City of Morehead, Kentucky to help fund the service. The funds are used to maintain and operate an ambulance service.

Old Courthouse Restoration Fund - The purpose of this fund is to account for the restoration and renovation of the old Rowan County courthouse. The W. Paul and Lucille Caudill Little Foundation donated a grant for \$1,000,000 dollars to the County for this project and the Fiscal Court matched this amount with a \$1,000,000 lease agreement with the Kentucky Area Development District Financing Trust.

The County of Rowan Properties Corporation - The purpose of this fund is to account for the activities of the Rowan Properties Corporation, a blended component unit of the county. The Rowan Properties Corporation issued debt to build a detention facility, for road paving, and the purchase of an abuse center. The Rowan Properties Corporation has entered into a contract, lease, and option with the County. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grants Fund, Hazmat 8 Fund, Forest Fire Fund, and the Local Government Economic Development Fund.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

Special Revenue Funds

The Road Fund, Jail Fund, Disaster and Emergency Services Fund, Ambulance Fund, Local Government Economic Assistance Fund, State Grants Fund, Hazmat 8 Fund, Forest Fire Fund, and the Local Government Economic Development Grant Fund are presented as Special Revenue Funds. Special Revenue Funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund

The County of Rowan Properties Corporation is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Capital Projects Fund

The Old Courthouse Restoration Fund is presented as a capital projects fund. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenue of the county's enterprise fund is commissary sales. Operating expenses for the enterprise fund include cost of sales, education and recreational expenditures, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989 unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements of Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental activities of the government-wide financial statements. Such assets are recorded at acquisition or construction cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

<u>Category</u>	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-25
Infrastructure	20,000	10-50

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note I. Summary of Significant Accounting Policies (Continued)

H. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance cost when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds received are reported as other financing sources.

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances. "Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the County of Rowan Properties Fund (Debt Service Fund). The Governor's Office for Local Development does not require this fund to be budgeted.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Jointly Governed Organization

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participation government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating government. The jointly governed organization can act independently of each of the participating governments. The Menifee, Morgan, and Rowan Counties Industrial Park (MMRC) meets the criteria noted above and is an organization jointly governed by the Kentucky counties previously mentioned. The Morehead-Rowan County Airport Board also meets the above criteria and is therefore disclosed as an organization jointly governed by the City of Morehead and Rowan County.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ROWAN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006
 (Continued)

Note 3. Long-term Debt

Governmental Activities:

A. County of Rowan Properties Corporation – Detention Center

On September 1, 1997, the County of Rowan Properties Corporation issued \$1,285,000 of revenue bonds for the defeasance of the 1991 bond series issue. The 1991 bonds were originally issued to finance construction of the Rowan County Detention Center. The refunding bonds were dated September 1, 1997, with the requirement that semiannual interest payments be made on March 1 of each year commencing March 1, 1998. The agreement has a variable interest rate of 4.95 to 5.05 percent. The bonds will mature March 1, 2012. As of June 30, 2006, the principal amount outstanding was \$625,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 95,000	\$ 31,516
2008	95,000	26,766
2009	100,000	21,968
2010	105,000	16,918
2011	110,000	11,616
2012	120,000	6,060
Totals	<u>\$ 625,000</u>	<u>\$ 114,844</u>

B. County of Rowan Properties Corporation – Road Improvements

On June 15, 1999, the County of Rowan Properties Corporation issued \$2,035,000 of revenue bonds for road improvements. The bonds require that semiannual interest and principal payments be made on June 1 and December 1 of each year commencing on December 1, 1999. One principal payment will be due on June 1 of each year commencing June 1, 2000. The agreement has a variable interest rate of 4.25 to 4.55 percent. The bonds will mature June 1, 2009. As of June 30, 2006, the principal amount outstanding was \$705,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 225,000	\$ 31,393
2008	235,000	21,605
2009	245,000	11,148
Totals	<u>\$ 705,000</u>	<u>\$ 64,146</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Long-term Debt (Continued)

C. Capital Lease – Airport Land Acquisition

Rowan County entered into a \$1,500,000 lease agreement with Kentucky Area Development Districts Financing Trust for airport land acquisition. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing December 1, 2000. One principal payment will be due on June 1 of each year commencing June 1, 2001. The lease agreement ends June 1, 2010. The agreement has a variable interest rate of 4.75 to 5.1 percent. The Morehead – Rowan County Airport Board made a resolution that they would provide funds to the Rowan County Fiscal Court to make these payments. The Morehead – Rowan County Airport Board's ability to provide this funding is contingent on the Transportation Cabinet's Kentucky Aviation Economic Development Fund continuing to provide annual assistance to them. The principal balance on the lease was \$690,000 as of June 30, 2006. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 160,000	\$ 35,190
2008	170,000	27,030
2009	175,000	18,360
2010	185,000	9,435
Totals	<u>\$ 690,000</u>	<u>\$ 90,015</u>

D. Capital Lease – Fire Truck Acquisition

Rowan County entered into a \$170,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the purchase of a fire truck. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing on June 1, 2002. The agreement has a variable interest rate of 3.9 to 4.2 percent. The lease agreement ends June 1, 2011. The principal on the lease was \$95,000 as of June 30, 2006. Lease payment for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2007	15,000	3,990
2008	20,000	3,360
2009	20,000	2,520
2010	20,000	1,680
2011	20,000	840
Totals	<u>\$ 95,000</u>	<u>\$ 12,390</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Long-term Debt (Continued)

E. Capital Lease – Old Courthouse Restoration Project

On March 1, 2005, Rowan County entered into a \$1,000,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the restoration and renovation of the Old Rowan County Courthouse. The lease requires that semiannual interest payments be made on March 1 and September 1 of each year through March 1, 2024. One principal payment is due on September 1 of each year commencing on September 1, 2005. The agreement has a variable interest rate of 2.2 to 5.3 percent. The principal on the lease was \$970,000 as of June 30, 2006. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 35,000	\$ 46,408
2008	35,000	45,183
2009	35,000	43,958
2010	35,000	42,558
2011	40,000	40,840
2012-2016	220,000	176,075
2017-2021	285,000	144,233
2022-2024	285,000	31,138
Totals	<u>\$ 970,000</u>	<u>\$ 570,393</u>

F. Capital Lease – Road Equipment

Rowan County entered into a \$260,000 lease agreement with Kentucky Association of Counties for the purchase of road equipment to be paid in full on July 20, 2011. The lease requires that annual principal payments be made on July 20 of each year commencing July 20, 2006. Interest payments are required to be paid monthly commencing on June 20, 2006. The agreement has an interest rate of 3.51 percent. The principal balance on the lease was \$239,920. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 45,000	\$ 6,971
2008	45,000	5,400
2009	50,000	3,656
2010	50,000	1,901
2011	49,920	149
Totals	<u>\$ 239,920</u>	<u>\$ 18,077</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Long-term Debt (Continued)

G. Capital Lease – Debt Consolidation For Ambulance Board

Rowan County entered into a \$150,000 lease agreement with the Kentucky Area Development Districts Financing Trust for debt consolidation of the former Rowan County Ambulance Board. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing December 1, 2002. The agreement has an interest rate of 3.50 percent. One principal payment is due on June 1 of each year commencing on June 1, 2003. The lease agreement ends June 1, 2006. The principal on the lease was paid in full as of June 30, 2006.

H. Changes in Long-Term Debt

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 1,635,000	\$	\$ 305,000	\$ 1,330,000	\$ 320,000
Financing Obligations	<u>1,990,000</u>	<u>260,000</u>	<u>255,080</u>	<u>1,994,920</u>	<u>255,000</u>
Total Governmental Activities					
Long-term Liabilities	<u>\$ 3,625,000</u>	<u>\$ 260,000</u>	<u>\$ 560,080</u>	<u>\$ 3,324,920</u>	<u>\$ 575,000</u>

Note 4. Short-Term Debt

A. On April 6, 2006, the Rowan County Fiscal Court entered into a lease agreement in the amount of \$260,000 with the Bank Of New York for a truck purchase project. The County purchased three heavy trucks for the county to use for one year; then they will auction the trucks off to pay the outstanding principal of the lease. The agreement requires one payment due March 1, 2007, with an interest rate of 3.75 percent. The principal balance of the agreement was \$260,000 as of June 30, 2006.

B. On August 11, 2005, the Rowan County Fiscal Court entered into a lease agreement in the amount of \$255,000 with the Bank Of New York for a truck purchase project. The County purchased three heavy trucks for the county to use for the 2006 fiscal year. The trucks were auctioned off to pay the outstanding principal of the lease on March 20, 2006. The agreement required one payment due by June 30, 2006, with an interest rate of 3.75 percent. As of June 30, 2006 the principal balance on the lease was \$0.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Short-Term Debt (Continued)

Short-Term liability activity for the year ended June 30, 2006, was as follows.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Primary Government: Governmental Activities</u>					
Financing Obligations	\$	\$ 515,000	\$ 255,000	\$ 260,000	\$ 260,000
Total Governmental Activities					
Short-term Liabilities	\$ 0	\$ 515,000	\$ 255,000	\$ 260,000	\$ 260,000

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 4,328,917	\$	\$	\$ 4,328,917
Construction In Progress	116,167	1,223,111		1,339,278
Total Capital Assets Not Being Depreciated	4,445,084	1,223,111		5,668,195
Capital Assets, Being Depreciated:				
Buildings	4,084,876			4,084,876
Other Equipment	861,736	372,337		1,234,073
Vehicles and Equipment	785,937	192,673	(52,400)	926,210
Infrastructure	629,964	409,609		1,039,573
Total Capital Assets Being Depreciated	6,362,513	974,619	(52,400)	7,284,732
Less Accumulated Depreciation For:				
Buildings	(1,005,346)	(66,554)		(1,071,900)
Other Equipment	(459,448)	(69,869)		(529,317)
Vehicles and Equipment	(346,132)	(65,330)	26,325	(385,137)
Infrastructure	(66,418)	(83,911)		(150,329)
Total Accumulated Depreciation	(1,877,344)	(285,664)	26,325	(2,136,683)
Total Capital Assets, Being Depreciated, Net	4,485,169	688,955	(26,075)	5,148,049
Governmental Activities Capital Assets, Net	<u>\$ 8,930,253</u>	<u>\$ 1,912,066</u>	<u>\$ (26,075)</u>	<u>\$ 10,816,244</u>
<u>Proprietary Activities</u>				
Capital Assets, Being Depreciated:				
Vehicles	\$ 11,000	\$ 15,500	\$	\$ 26,500
Total Capital Assets Being Depreciated	11,000	15,500		26,500
Less Accumulated Depreciation For:				
Vehicles	(1,760)	(3,600)		(5,360)
Total Accumulated Depreciation	(1,760)	(3,600)		(5,360)
Proprietary Activities Capital Assets, Net	<u>\$ 9,240</u>	<u>\$ 11,900</u>	<u>\$ 0</u>	<u>\$ 21,140</u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities

General Government	\$ 54,134.
Protection to Persons and Property	88,123
General Health And Sanitation	2,232

Roads, Including Depreciation of General

Infrastructure Assets	141,175
Total Depreciation Expense – Governmental Activities	<u>\$ 285,664</u>

Business – Type Activities

Jail Canteen	<u>\$ 3,600</u>
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Note 6. Interest on Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$118,547 in interest on financing obligations and \$76,143 in interest on bonds.

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Deferred Compensation

The Rowan County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority, 105 Sea Hero Road Suite #1, Frankfort, KY 40601-8862.

Note 9. Insurance

For the fiscal year ended June 30, 2006, Rowan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Doves Building Project

The Rowan County Fiscal Court received a Community Development Block Grant in the amount of \$500,000 for the purpose of assisting D.O.V.E.S. of Gateway purchase a building to be used as an abuse shelter. \$480,000 of the grant proceeds were used to purchase the building and the remainder was designated for planning and administration of the grant. The purchase price of the building was \$575,700. D.O.V.E.S. of Gateway obtained a bank loan for the rest of the funds needed to purchase the building and make needed improvements to the property. The deed of conveyance giving the Rowan County Fiscal Court legal title to the property stipulates that title to the property will be conveyed to D.O.V.E.S. of Gateway six (6) months after the closeout of the Community Development Block Grant. As of June 30, 2006 the property has not been conveyed to D.O.V.E.S. of Gateway.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 11. Subsequent Events

On June 29, 2006 the Rowan County Fiscal Court adopted a resolution authorizing the issuance of the St. Claire Medical Center, Inc., bond sale in the amount of \$5,000,000.

On July 18, 2006 the Rowan County Fiscal Court adopted a resolution authorizing the application for a Kentucky Cemetery Grant in the amount of \$23,500.

On August 15, 2006 the Rowan County Fiscal Court issued a General Obligation Improvement Bond in an amount not to exceed ten percent under/over \$675,000 for the county courthouse project.

On August 15, 2006 the Rowan County Fiscal Court authorized the Rowan County Rescue Squad to accept a bid of \$92,156 for new facility construction.

On October 17, 2006 the Rowan County Fiscal Court entered into a memorandum of agreement between the Commonwealth of Kentucky and the Governors Office Of Local Development authorizing a grant application for the Rowan County Economic Development office design in an amount not to exceed \$150,000.

Note 12. Construction In Progress

Construction In Progress consisted of the following projects as of June 30, 2006:

Old House Creek Bridge	\$ 23,250
Old Courthouse	<u>1,316,028</u>
Total Construction In Progress	<u>\$ 1,339,278</u>

Note 13. Related Party Note

The County entered into the following related party transactions, which were approved by the fiscal court.

The county expended \$129 to Caudill's Grocery, and \$3,500 to Caudill's Excavating. Caudill's Excavating and Caudill's Grocery are both owned by the brother of a magistrate of the Rowan County Fiscal Court.

The county sold pipe, signs, and salt to the following elected officials or their families in the following amounts:

Clyde Thomas – Former Judge Executive	Pipe	\$ 167
Nathan Pecco – Son of Anna Pecco, Magistrate	Salt	\$ 863
Jerry Flannery – Magistrate	Pipe	\$ 109
Nick Caudill – Magistrate	Signs	\$ 30
William W. Roberts – County Attorney	Pipe	\$ 3,217

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 14. Restatement of Governmental Activities – Net Assets

The Rowan County Fiscal Court has restated its June 30, 2005 Governmental Activities Net Assets as follows to retroactively capitalize construction in process.

Net Assets at June 30, 2005 (as previously reported)	\$ 7,754,110
Construction In Progress Not Reported In Prior Year	<u>116,167</u>
Net Assets June 30, 2005 (as restated)	<u>\$ 7,870,277</u>

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

ROWAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,444,500	\$ 2,493,092	\$ 2,706,382	\$ 213,290
In Lieu Tax Payments	82,000	82,000	93,325	11,325
Excess Fees	35,000	69,457	71,014	1,557
Licenses and Permits	142,300	192,163	211,448	19,285
Intergovernmental	562,560	965,192	1,123,680	158,488
Miscellaneous	90,000	102,288	122,051	19,763
Interest	4,000	6,171	8,468	2,297
Total Revenues	3,360,360	3,910,363	4,336,368	426,005
EXPENDITURES				
General Government	1,260,343	1,305,765	1,252,315	53,450
Protection to Persons and Property	265,057	427,510	408,476	19,034
General Health and Sanitation	165,128	365,357	352,943	12,414
Social Services	47,500	66,500	60,699	5,801
Recreation and Culture	138,000	138,000	104,500	33,500
Debt Service	293,955	293,850	293,603	247
Capital Projects	28,656	28,656	10,000	18,656
Administration	927,267	938,361	901,277	37,084
Total Expenditures	3,125,906	3,563,999	3,383,813	180,186
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	234,454	346,364	952,555	606,191
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			268,778	268,778
Transfers To Other Funds	(714,454)	(714,454)	(913,059)	(198,605)
Total Other Financing Sources (Uses)	(714,454)	(714,454)	(644,281)	70,173
Net Changes in Fund Balance	(480,000)	(368,090)	308,274	676,364
Fund Balance - Beginning	480,000	480,000	110,436	(369,564)
Fund Balance - Ending	\$ 0	\$ 111,910	\$ 418,710	\$ 306,800

ROWAN COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Required Supplementary Information - Modified Cash Basis
 For The Year Ended June 30, 2006
 (Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 610,000	\$ 610,000	\$ 671,824	\$ 61,824
In Lieu of Tax	62,000	62,000	64,052	2,052
Intergovernmental	1,256,000	1,533,258	1,298,599	(234,659)
Miscellaneous	19,000	326,500	313,089	(13,411)
Interest	500	500	3,248	2,748
Total Revenues	1,947,500	2,532,258	2,350,812	(181,446)
EXPENDITURES				
Social Services		120	120	
Roads	1,409,793	1,931,498	1,645,709	285,789
Debt Services	255,530	528,691	528,417	274
Administration	308,527	397,140	383,158	13,982
Total Expenditures	1,973,850	2,857,449	2,557,404	300,045
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(26,350)	(325,191)	(206,592)	118,599
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		240,000	239,920	(80)
Transfers From Other Funds	26,350	26,350	247,527	221,177
Transfers To Other Funds	0	0	(307,305)	(307,305)
Total Other Financing Sources (Uses)	26,350	266,350	180,142	(86,208)
Net Changes in Fund Balance		(58,841)	(26,450)	32,391
Fund Balance - Beginning		33,708	33,708	
Fund Balance - Ending	\$ 0	\$ (25,133)	\$ 7,258	\$ 32,391

ROWAN COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Required Supplementary Information - Modified Cash Basis
 For The Year Ended June 30, 2006
 (Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 748,700	\$ 761,208	\$ 717,663	\$ (43,545)
Charges for Services	41,900	41,900	36,148	(5,752)
Miscellaneous	25,000	26,211	30,109	3,898
Interest	50	226	309	83
Total Revenues	815,650	829,545	784,229	(45,316)
EXPENDITURES				
Protection to Persons and Property	889,496	1,004,892	998,838	6,054
Debt Service	119,198	125,770		125,770
Administration	248,500	228,634	226,639	1,995
Total Expenditures	1,257,194	1,359,296	1,225,477	133,819
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(441,544)	(529,751)	(441,248)	88,503
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	441,544	441,544	540,044	98,500
Transfers To Other Funds			(125,770)	(125,770)
Total Other Financing Sources (Uses)	441,544	441,544	414,274	(27,270)
Net Changes in Fund Balance				
		(88,207)	(26,974)	61,233
Fund Balance - Beginning		33,297	33,298	1
Fund Balance - Ending				
	\$ 0	\$ (54,910)	\$ 6,324	\$ 61,234

ROWAN COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Required Supplementary Information - Modified Cash Basis
 For The Year Ended June 30, 2006
 (Continued)

DISASTER AND EMERGENCY SERVICES FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 45,200	\$ 45,200	\$ 16,059	\$ (29,141)
Miscellaneous			862	862
Interest			1,823	1,823
Total Revenues	45,200	45,200	18,744	(26,456)
EXPENDITURES				
Protection to Persons and Property	50,033	81,742	67,274	14,468
Capital Projects	182,000	158,616	13,657	144,959
Administration	15,445	13,119	10,761	2,358
Total Expenditures	247,478	253,477	91,692	161,785
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(202,278)	(208,277)	(72,948)	135,329
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	22,278	22,278	22,278	
Total Other Financing Sources (Uses)	22,278	22,278	22,278	
Net Changes in Fund Balance	(180,000)	(185,999)	(50,670)	135,329
Fund Balance - Beginning	180,000	185,999	185,999	
Fund Balance - Ending	\$ 0	\$ 0	\$ 135,329	\$ 135,329

ROWAN COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Required Supplementary Information - Modified Cash Basis
 For The Year Ended June 30, 2006
 (Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 198,381	\$ 247,919	\$ 240,157	\$ (7,762)
Charges for Services	914,000	914,000	997,887	83,887
Miscellaneous	21,500	29,935	20,546	(9,389)
Interest	50	50	576	526
Total Revenues	1,133,931	1,191,904	1,259,166	67,262
EXPENDITURES				
Protection to Persons and Property	995,468	1,153,643	1,109,088	44,555
Debt Service	41,900	41,900	41,900	
Administration	320,845	321,272	315,137	6,135
Total Expenditures	1,358,213	1,516,815	1,466,125	50,690
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(224,282)	(324,911)	(206,959)	117,952
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	224,282	224,282	141,300	(82,982)
Total Other Financing Sources (Uses)	224,282	224,282	141,300	(82,982)
Net Changes in Fund Balance		(100,629)	(65,659)	34,970
Fund Balance - Beginning		68,759	68,754	(5)
Fund Balance - Ending	\$ 0	\$ (31,870)	\$ 3,095	\$ 34,965

ROWAN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

1. Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances

Following is a summary of adjustments to convert cash basis budgetary schedules to modified cash basis of accounting used in the Statement of Revenues, Expenditures, and Changes in Fund Balances:

Road Fund	Debt Service	Roads	Other Financing Sources (Uses)
Budgetary Comparison Schedule	\$ 528,417	\$ 1,645,709	\$ 180,142
Transfer to County of Rowan County			
Properties Fund	(255,373)		(255,373)
Purchase of Trucks		515,000	
			515,000
Statement of Revenues, Expenditures, And Changes in Fund Balances - Modified Cash Basis	<u>\$ 273,044</u>	<u>\$ 2,160,709</u>	<u>\$ 439,769</u>

**ROWAN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

ROWAN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Local Government Economic Assistance Fund	State Grants Fund	Hazmat 8 Fund	Forest Fire Fund
ASSETS				
Cash and Cash Equivalents	\$ 19,944	\$ 28,953	\$ 172	\$ 2
Total Assets	<u>\$ 19,944</u>	<u>\$ 28,953</u>	<u>\$ 172</u>	<u>\$ 2</u>
FUND BALANCES				
Fund Balances:				
Reserved For Encumbrances	\$ 17,518	\$	\$	\$
Unreserved:				
Special Revenue Funds	<u>2,426</u>	<u>28,953</u>	<u>172</u>	<u>2</u>
Total Fund Balances	<u>\$ 19,944</u>	<u>\$ 28,953</u>	<u>\$ 172</u>	<u>\$ 2</u>

ROWAN COUNTY
 COMBINING BALANCE SHEET -
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information
 June 30, 2006
 (Continued)

Local Government Economic Development Fund	Total Non-Major Governmental Funds
\$ 42,400	\$ 91,471
\$ 42,400	\$ 91,471
\$	\$ 17,518
42,400	73,953
\$ 42,400	\$ 91,471

ROWAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

ROWAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Local Government Economic Assistance Fund	State Grants Fund	Hazmat 8 Fund	Forest Fire Fund
REVENUES				
Taxes	\$	\$	\$	\$ 982
Intergovernmental	52,465	40,781	62,745	
Interest	404			
Total Revenues	<u>52,869</u>	<u>40,781</u>	<u>62,745</u>	<u>982</u>
EXPENDITURES				
Protection to Persons and Property			64,929	1,604
General Health and Sanitation		18,390		
Capital Projects	85,464			
Total Expenditures	<u>85,464</u>	<u>18,390</u>	<u>64,929</u>	<u>1,604</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(32,595)</u>	<u>22,391</u>	<u>(2,184)</u>	<u>(622)</u>
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	(38,527)			
Transfers from Other Funds	38,527			437
Total Other Financial Sources (Uses)	<u>0</u>			<u>437</u>
Net Change in Fund Balances	(32,595)	22,391	(2,184)	(185)
Fund Balances - Beginning	52,539	6,562	2,356	187
Fund Balances - Ending	<u>\$ 19,944</u>	<u>\$ 28,953</u>	<u>\$ 172</u>	<u>\$ 2</u>

ROWAN COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information
 For The Year Ended June 30, 2006
 (Continued)

Local Government Economic Development Fund	Total Non-Major Governmental Funds
\$	\$ 982
	155,991
	404
	<u>157,377</u>
	66,533
	18,390
	85,464
	<u>170,387</u>
	(13,010)
	(38,527)
	38,964
	<u>437</u>
	(12,573)
42,400	104,044
<u>\$ 42,400</u>	<u>\$ 91,471</u>

**ROWAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2006

ROWAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Rowan County Fiscal Court and an adverse opinion on the discretely presented component unit.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditors' Report.
3. No instances of noncompliance material to the financial statements of Rowan County Fiscal Court were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditors' Report.
5. The auditors' report on compliance for the audit of the major federal awards programs for Rowan County Fiscal Court expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal awards programs for Rowan County reported in Part C of this schedule.
7. The programs tested as major programs were: U.S. Department of Commerce – CFDA# 11.469, U.S. Department of Homeland Security – CFDA# 97.044 and 97.061, and Board of Elections – CFDA# 90.401.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Rowan County did not qualify to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

NONE

REPORTABLE CONDITIONS

NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

NONE

D. PRIOR YEAR FINDINGS

NONE

**ROWAN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Other Supplemental Information

For the Year Ended June 30, 2006

ROWAN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2006

<u>Program</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Pass-Through Grant Amount</u>
U. S. Department of Commerce			
Congressionally Identified Awards and Projects			
Passed Through East Kentucky Pride Inc.			
Pride Super Grant	11.469	Unknown	\$ 140,200
Pride Community Grant	11.469	Unknown	50,000
			<u>190,200</u>
U. S. Department of Homeland Security			
Passed Through State Department of			
Military Affairs			
Assistance to Firefighters Grant	97.044	Unknown	47,909
Centers for Homeland Security	97.061	Unknown	216,218
Disaster Grants - Public Assistance	97.036	Unknown	15,177
Homeland Security Grant Program			4,559
Domestic Preparedness Equipment	97.004	Unknown	68,879
			<u>352,742</u>
Election Assistance Commission (EAC)			
Help America Vote Act Requirements			
Payments Passed Through Kentucky State			
Board of Elections			
Help America Vote Act (HAVA)	90.401	Unknown	114,832
TOTAL FEDERAL AWARDS			<u><u>\$ 657,774</u></u>

ROWAN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2006

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rowan County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133; Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Morgan-Franklin, LLC

Certified Public Accountants

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Brenda K. Morgan, CPA
Jody B. Franklin, CPA

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To the People of Kentucky

Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Jim Nickell, Rowan County Judge/Executive
Honorable Clyde A. Thomas, Former Rowan County Judge/Executive
Members of the Rowan County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of
Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Rowan County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 29, 2007 wherein we presented an adverse opinion on the discretely presented component unit. Rowan County prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rowan County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

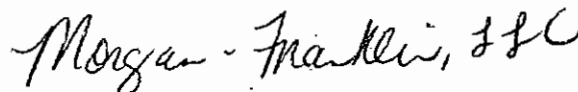
Report On Internal Control Over
Financial Reporting And On Compliance And
Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Rowan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morgan-Franklin, LLC".

Morgan-Franklin, LLC

January 29, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Jim Nickell, Rowan County Judge/Executive

Honorable Clyde A. Thomas, Former Rowan County Judge/Executive

Members of the Rowan County Fiscal Court

Report on Compliance with Requirements Applicable to
Each Major Program and Internal Control Over Compliance
In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Rowan County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Rowan County, Kentucky's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Rowan County, Kentucky's management. Our responsibility is to express an opinion on Rowan County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rowan County, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Rowan County's compliance with those requirements.

In our opinion, Rowan County, Kentucky, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Report on Compliance with Requirements Applicable to
Each Major Program and Internal Control Over Compliance
In Accordance With OMB Circular A-133

Internal Control Over Compliance

The Rowan County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Rowan County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulation, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Kentucky Governor's Office for Local Development, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully Submitted

Morgan-Franklin, LLC

Morgan-Franklin, LLC

January 29, 2007

**ROWAN COUNTY
CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

For The Fiscal Year Ended June 30, 2006

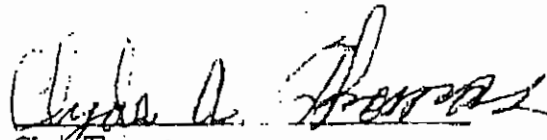
CERTIFICATION OF COMPLIANCE

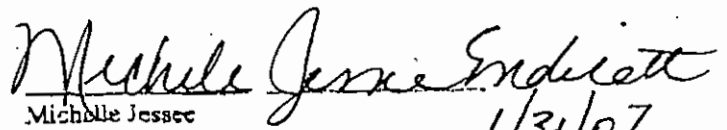
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND DEVELOPMENT PROGRAM

ROWAN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Rowan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance And Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

 01/30/07
Clyde Thomas
County Judge Executive

 1/31/07
Michelle Jesse
County Treasurer